Canada: Local insourcing in face of national privatization push

By Robert Ramsay

The vast majority of public services and infrastructure in Canada are publicly owned and operated. This is a situation that advocates of the public sector, including CUPE, are committed to defend. Municipal and provincial governments, driven by an austerity ideology and the false narrative of risk transfer, continue to propose privatization in various forms and across a variety of sectors, primarily by tying infrastructure funding to private investment.

For example, on 10 September 2019 the province of Ontario's Conservative government announced 32 infrastructure projects worth $65 billion (CAD) that it will implement through public-private partnerships (P3s).[1] In this, Ontario is following the lead of the federal Liberal government, whose Canada Infrastructure Bank, created in 2017, proposes to deliver infrastructure projects by leveraging public tax dollars for expensive private financing (see Canada Infrastructure Bank section below).[2]

In addition to this, we face new forms of privatization, such as social impact bonds (see Social impact bonds section below). These models may seem attractive, because they seem to link private sector financing to socially desirable outcomes. However, this type of privatization actually diminishes the effectiveness of social programs by diverting any savings or surplus into profit for the private investor, rather than into program improvements.[3] These models also raise the moral problem of seeking profit from the services that help the most vulnerable people in our society.

Increasingly, rigorous studies of P3s in Canada demonstrate that they are inferior to projects run by the public sector.[4] In 2014, the Ontario Auditor General reviewed 74 P3 projects and concluded that they cost taxpayers $8 billion more than if the province had used public procurement.[5] The same report also called into question the premise of risk transfer, finding that the estimates of the value of the risk transfer were highly inflated.

Similarly in 2014, the British Columbia Auditor General reviewed 16 P3 projects and determined that the province paid approximately twice as much for private sector financing as it would have had it borrowed the money itself.[6] An update to the Auditor General's report conducted by the Columbia Institute in Vancouver found that between 2003 and 2017 British Columbia paid $3.7 billion more for 17 P3 projects than it would have if they had used more traditional public procurement.[7] Similar studies in other provinces and at the federal level further support the conclusion that privatization does not work for Canadians.

In this chapter, we are happy to report more than twenty new cases of remunicipalization in Canada, in addition to the fifteen cases from the previous edition. These cases span sectors, including water, transit, waste, broadband, and healthcare. While the examples are diverse, the reasons for bringing these services back in house remain consistent: the public sector delivers public services with greater economic efficiency and at a higher quality than the private sector.

CASE STUDIES

Case study 1: Winnipeg, Manitoba

Winnipeg solid waste: a political victory for public services

In 2005, the City of Winnipeg privatized its solid waste collection. Prior to this it was a municipal utility organized by CUPE. The privatization of the service resulted in substandard performance at virtually every level, and over time the municipal labour union was able to advance a strong political campaign for in-house waste collection.

After privatization, the primary solid waste contractors engaged in a system of subcontracting, sometimes at the level of individual trucks. This scheme – a form of bogus self-employment – is a way for employers to push employment and social security costs and risks to the workers and keep them in a precarious state, so that they can easily be let go by the company.

Not surprisingly, poor working conditions were the norm. The workers were often precarious labourers hired day-to-day who were paid in cash and not protected by any occupational health and safety oversight. In addition, poor service performance was often reported, including damage to bins and property, garbage pileups, and missed collections.

CUPE Local 500 (representing Winnipeg municipal workers) had been politically active on this file since 2005. The union's goal had been to bring the full service back in house, and they had sustained consistent outreach to ideologically friendly councillors.

In 2016, the local union invited the chair of Winnipeg City Council's Water and Wastewater Management Committee to Ottawa to meet with Ottawa city staff and the Ottawa municipal union, which had successfully contracted in solid waste a few years before with the support of the city's staff and Council. The city staff in Ottawa had demonstrated that in-house service could perform competitively or better than an outsourced service, both in terms of quality and cost, and the Winnipeg local wanted to apply this lesson to the problem in Winnipeg.

At the same time, Local 500 took advantage of widespread negative news coverage of the contractors, such as a 2016 documentary that exposed how Indigenous youth working as day labourers for the contractor Emterra were being exploited and underpaid.[8] The local union also commissioned a study from the Canadian Centre for Policy Alternatives, titled "Trashed," that documented the poor working conditions and substandard service provided by the private contractors.[9]

The media coverage proved an embarrassment for the city. As a result of this, and the union's diligent outreach efforts, Winnipeg City Council decided to bring a part of the city's municipal waste services back in house as a pilot project. While this initial project only involves hiring a small number of city employees, if the model proves successful there is potential to bring 200 or more waste collection jobs back in house.

This is a significant political victory for CUPE and for Local 500, who worked tirelessly on this issue for many years, changing public opinion and bringing city politicians onside.

The Winnipeg case also raises an important issue – the public sector is the right choice to deliver public services not only because it is financially competitive, but because it provides better and safer jobs.

Case study 2: Owen Sound, Ontario

Owen Sound municipal wastewater: the municipality does it better

Veolia Water Canada had operated Owen Sound's wastewater treatment plant, through a series of short-term operating contracts, since 2004. Prior to 2004, the system was operated by the provincial crown agency OCWA (Ontario Clean Water Agency). In 2012, the Veolia contract was coming to an end, and the city was facing operational and organizational changes that spurred the municipal council to re-examine the city's relationship with Veolia.

A report to city council outlined a plan for the city to take greater responsibility for the operations of the wastewater treatment plant, and remodel wastewater operations in general, with a view towards reducing current operational costs, increasing control over future operational costs, and improving service coverage and monitoring.[10]

In light of this report, in 2012 Owen Sound City Council voted to assume direct operation of the city's wastewater treatment plant, hiring two treatment plant operators previously employed by Veolia Water Canada, and hiring a third wastewater treatment and collection operator. Under a new five-year, reduced-scope contract, Veolia Water Canada is responsible for disposing of biosolids, and will monitor and report on sewer system bypasses in compliance with Ministry of Environment requirements, as well as inspecting and rating the condition of the city's sanitary sewer infrastructure.

As expected, bringing the bulk of the service back in house has resulted in greater in-house control. Contract costs dropped from $900,000/year to $300,000/year because of Veolia's reduced role. A report to city council estimated net savings of $40,000 in 2013, after the city assumed control of the plant. The report also noted that wastewater service was expected to improve, with the additional operator helping perform needed duties in wastewater collection.

Due to the success of the initial partial remunicipalization, council voted on 30 March 2016 not to renew the limited five-year Veolia contract when it expired in 2017. The city's draft 2017 budget included a line item looking at "alternatives to Veolia system" for sewage bypass monitoring.[11]

Case study 3: Taber, Alberta

Taber water: privatization does not pay

In 2007, the Town of Taber signed a 20-year contract with for-profit corporation EPCOR to finance and execute upgrades to the town's wastewater and stormwater infrastructure, as well as operate and maintain the town's water and wastewater systems. At the time, CUPE was a vocal opponent of the privatization and campaigned against it. CUPE Local 2038 represents workers in the municipality and went on to represent the EPCOR workers, negotiating a separate collective agreement with EPCOR.

In November 2015, EPCOR tabled a proposal to change the terms of its contract, increasing its fees by 68 per cent. Subsequent discussions between the town and EPCOR led to EPCOR issuing an ultimatum, reported in the media as follows: "[EPCOR] presented the town with two options, using the dispute resolution process set out in the agreement to arbitrate the fee increase issue, or negotiate an end to the agreement."

EPCOR's position caused the town to initiate a study of the water and wastewater operations which, according to media reports, confirmed that the town could provide the same or better level of service as EPCOR, at approximately the same cost.

On 15 August 2016, town council voted to accept a proposal from EPCOR to negotiate a termination of the contract.[12] Later that year, the town voted to refinance a $5.5 million loan held by EPCOR. The funds were part of the original contract and were used to pay for upgrades to the town's wastewater treatment plant and storm water system. As background for a bylaw authorizing the borrowing, town staff reported that refinancing the loan would reduce the interest rate from 6.5 per cent to 2.275 per cent, saving approximately $1.4 million in interest over the 10-year loan period and completing the upgrades at a lower cost.

Ten EPCOR staff transferred over to become Town of Taber staff, representing a 10 per cent increase in the town's workforce. The workers are now back under the main CUPE 2038 certificate and collective agreement. The town and CUPE reached a new collective agreement in October 2018.

By taking this important public service back in house, the town has avoided the extra costs that would have been passed on to residents through rate hikes. According to media reports, there were no payouts or penalties associated with cancelling the contract.[13] Furthermore, the town's draft 2018-20 budget proposed to maintain current fee rates.

New fights

Canada Infrastructure Bank

Recent estimates of Canada's national infrastructure deficit range from $50 billion at the low end to over $500 billion at the high end.[14] This underfunding reflects decades of austerity from multiple levels of government, and the resulting deterioration of Canada's infrastructure stock has refocused the attention of governments on this increasingly urgent problem.

In 2015, the new Liberal government put infrastructure funding at the centre of its agenda, by making significant commitments of federal dollars and by changing funding ratios and requirements. At the same time, the Liberals promised to create a public infrastructure bank that would provide financing to provinces, territories, and municipalities at low government borrowing rates. Canadians from across the political spectrum applauded this historic commitment.

Rather than follow through on the commitment to low-cost financing, however, the Liberal government's Canada Infrastructure Bank (CIB), once created, made privatization and private sector financing a central principle of its operations. The CIB's stated mandate was to finance large, revenue-generating infrastructure projects by attracting up to four dollars of private investment for every dollar invested by the government. CIB projects would be, therefore, public-private partnerships facilitated by the federal government and backed by federal money.

Early analyses of this structure suggested that private financing would double the cost of projects, compared to public financing.[15] Still, large financial firms and pension plans on the hunt for productive domestic investment opportunities were quick to praise this model.

Critical studies of P3s, including by auditors general, suggest that they are regularly plagued by increased project costs, high user fees, and a lack of transparency (see Introduction). The CIB makes this bad model worse by allowing the private sector to submit unsolicited proposals to the Bank, thereby allowing important decisions about infrastructure investment to be led by the profit imperative of the private sector, rather than by a real assessment of need and the public good.

The CIB's first announced project was the Réseau express métropolitain (REM) light rail line currently under construction in Montréal. This P3 rail line is owned by a subsidiary of the *Caisse de dépôt et placement de Québec*, the second largest pension fund in Canada. The REM is a prime example of the lack of transparency surrounding CIB projects, and it has been rightly criticized by civil society groups for its anticipated impact on the environment, fares, current ridership levels, and future costs for operation and maintenance. Despite this criticism, the CIB has recently touted other P3 transportation infrastructure, such as the for-profit toll road Highway 407 north of Toronto, as good models for future investment.

As of September 2019, the CIB has announced only a handful of other projects, mostly in the transit, water, and electricity sectors.[16] However, there is significant potential for the CIB to fundamentally alter the way that critical infrastructure is financed and operated in Canada.

Social impact bonds

Social impact bonds are a new form of privatization gaining ground in Canada. They primarily affect areas such as social services, education and health care. This model allows investors to profit from public services. Investors provide up-front financing for public programs like health promotion and disease prevention, child care or ending homelessness. If certain outcomes are met, the government pays back investors for the initial program cost, plus a profit.

Social impact bonds use private lending to provide a social and public good, while also generating a profit for investors. The problem with this type of financing is that it runs the risk of prioritizing investor returns over service delivery.

SIBs are gaining traction in Canada. The governments of Manitoba, Saskatchewan, and Ontario, as well as the federal government, are exploring new SIBs. The federal government's 2018 Fall economic update announced $755 million over 10 years in seed funding for "social financing" to charities, non-profit groups and other organizations serving a social purpose.[17] An additional $50 million over two years will be used to increase access to and knowledge of social finance by social purpose organizations.

CUPE is concerned that the federal government's plans to encourage private lending to social and community groups will open the door to privatization of vital services. It's important that workers, service users and service providers work together to stop this new form of profiteering, and push for well-funded, strong public services.[18]

Conclusion

Public sector unions are on the front line of the fight against privatization. CUPE and our counterparts have worked hard for many years to highlight the harm that privatization does to the public sector, to public services, and to the people who depend on those services. At its 2017 national convention, the Canadian Labour Congress passed a resolution calling on the Congress to investigate and report on new forms of privatization, an example of the continued importance that this issue holds for the labour movement in Canada. We will continue to work to reverse the privatization of public services, in all its forms.

At the same time, CUPE and our counterparts in the labour movement want to articulate a pro-public vision for the future, and not merely criticize the disproven narratives of past privatization and austerity agendas. Therefore, it is important for us to advance principles that will ensure fully funded and robust public services like fair taxation and the expansion of public revenues, direct government funding of infrastructure, municipal financing authorities, and the closure of state sponsored P3 agencies. Democratic, public control of the public purse is essential to this vision. Our public services do not exist for the enrichment of the private sector, but for the enrichment of our lives.

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Endnotes

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17 Fall 2018 Economic Update, Government of Canada, https://www.budget.gc.ca/fes-eea/2018/docs/statement-enonce/chap02-en.html#s1. The Social Finance Fund is introduced in Chapter 2.
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